

**COMMITTEE OF THE WHOLE
FISCAL YEAR 2022-2023 DEPARTMENTAL BUDGET REVIEWS**

MINUTES

The Fiscal Year 2022-2023 Departmental Budget Reviews of the Committee of the Whole of the Council of the County of Kaua'i, was called to order by Arryl Kaneshiro, Chair, at the Council Chambers 4396 Rice Street, Suite 201, Līhu'e, Kaua'i, on Thursday, March 24, 2022 at 9:01 a.m., after which the following Members answered the call of the roll:

Honorable Bernard P. Carvalho, Jr.
Honorable Mason K. Chock
Honorable Felicia Cowden
Honorable Luke A. Evslin
Honorable Bill DeCosta
Honorable KipuKai Kuali'i
Honorable Arryl Kaneshiro

Committee Chair Kaneshiro: Today's meeting will be conducted pursuant to Act 220, Session Laws of Hawai'i 2021 and Governor Ige's Emergency Proclamation Related to COVID-19 (Omicron Variant) dated January 26, 2022. As a reminder, our March 28, 2022 Departmental Budget Reviews will be open to the public, so anyone wanting to provide testimony is welcome to do so at the beginning of the meeting at 9:00 a.m. For this morning, we do not have any registered speakers, but we will check shortly on Zoom to see if anyone has joined.

For those testifying this morning, please note that we will go through the list of registered speakers. We will then ask if there are any other testifiers for any of the other agenda items who would like to provide oral testimony. Once we have completed public testimony, it is recommended that those wanting to watch the remainder of the meeting go to the live webcast at www.kauai.gov/webcastmeetings. You may, however, remain on the Zoom link, though it will be audio-only following completion of public testimony. Do we have anyone on Zoom?

There being no objections, the rules were suspended to take public testimony.

There being no one present to provide testimony, the meeting was called back to order, and proceeded as follows:

Committee Chair Kaneshiro: Okay. We have no registered speakers and no one waiting on Zoom. Not seeing and hearing any additional requests for testimony at this time, the public testimony period for today is now closed.

Committee Chair's Budgetary Comments

Good morning, I would like to call the Fiscal Year 2022-2023 Departmental Budget Reviews to order. On the schedule today, I, as the Committee of Whole Chair will go through

some ground rules for the budget proceedings. Shortly thereafter, the Mayor and the Administration will be given time to present their Fiscal Year 2022-2023 budget submittal, followed by the Departmental Budget Reviews for the Office of the Mayor, which also includes the Youth Work Program and the Office of Boards & Commissions, which will be followed by the Revenue Forecasting, and the Department of Human Resources & Human Resources Vacancy Reports. You will notice a condensed format for our budget this year on the calendar and this was set forth based on comments from Councilmembers and the efficiency we experienced a few budget sessions ago. Our individual days may be a little longer, but we will hopefully be able to review everyone in fewer days total. Each day during the budget proceedings we will take public testimony at the beginning, 9:00 a.m., and today there was no one wishing to testify. I would like to go over some of our ground rules and expectations for this year's budget. You folks hear it every year. We usually have a PowerPoint, but I do not think it is necessary. I will just go through it really quickly, so I do not bore you. As far as our budget procedures go, nothing has changed. The following is a summary of budget procedures and for more details, please refer to the budget expectation memorandum, which everyone should have received dated November 1, 2021. The Departmental Budget Reviews will follow the written schedule. If a department's review concludes before its allotted end time, the next scheduled review will begin immediately. This minimizes scheduling Budget Call-Backs. Although our schedule may say a department is scheduled for 1:30 p.m., if the meeting is running early, they just have to be ready. Prior to each Departmental Budget Review, Councilmembers, please review all materials and prepare any questions. Please contact Council Budget Staff to send questions to the Administration in advance, especially questions unlikely to be answered on the spot without prior notice. For example, questions that may require research or time to compile. It makes the meeting more efficient...if you give them a difficult question, we can give them the information ahead of time, or if you have a difficult question, then expect to get the answer back in an E-mail. Again, we try to limit the amount of E-mail responses we receive. The more responses we can get on the floor here at this time, the better. Equipping Administration personnel to respond verbally during the Departmental Budget Reviews will help limit the number of written follow-up questions, which take time to prepare and may impact regular County operations. All questions must directly relate to the Fiscal Year 2022-2023 Budget Proposal. The Administration has been asked to be prepared with key personnel to answer questions. Council questioning will commence after the respective department has finished its presentation. During all Budget proceedings, the Council Rules will continue to be enforced, including Rule No. 6(f) regarding Councilmembers' speaking time. Again, that is mainly referring to the end during our Budget Decision-Making time when we discuss the cuts and adds. Our discussion time on each item is five (5) minutes and three (3) times each person talks; as a total of three (3) times that they can speak and no more than five (5) minutes. Decision-Making is scheduled for Friday, May 13, 2022; Monday, May 16, 2022; and Tuesday, May 17, 2022, if necessary. Council Budget Staff will meet with each Councilmember between April 25, 2022 through May 9, 2022, to discuss decision-making amendments. Any proposal to add to the Budget should identify the source used to account for the increase. It takes four (4) votes to reduce

or remove an item, and five (5) votes to increase or add an item. Decisions will be made department-by-department. The Committee will then consider any revenue proposals thereafter, if applicable, and the Committee will not revisit items after they have been addressed unless deemed necessary. With that, I want to thank all the Councilmembers and the Administration in advance for their cooperation. I look forward to a very efficient and productive budget this year. I know that the Mayor has taken the time to speak individually to each Councilmember to share information and that is always appreciated. This will be the last budget session for me as I "term out" and I would like to thank everyone in advance for always making it a productive one. It appears this year that we did see an increase in revenue, but as you know, that does not mean our operating costs or the need to provide the basic infrastructure for the island has decreased. We are most likely going to see cost increased due to inflation, added needs for repair and maintenance of our existing infrastructure, and another few rounds of collective bargaining increases for our union employees. Thankfully, working together, we have put in place some sources of revenue, such as the General Excise Tax (G.E.T.) and County Transient Accommodations Tax (T.A.T.) to assist with these anticipated expenditures. We have also gratefully continued to receive Federal funding through grants and pandemic-related resources, which has also helped our financial situation. As always, we as a County must also try to improve upon our services and infrastructure needs moving forward. Most importantly, addressing the deferred maintenance for our critical assets as we pivot once again to refocus from our pandemic and disaster relief focus of recent years. I have ask the Administration to focus their Budget presentations on the Fiscal Year 2022-2023 Budget Proposal and to include any additional narrative information in their written presentations, which we have all received in advance. It is my hope that this will allow for a more efficient budget session focused primarily on their budgets being presented to us. Moving on with our schedule, I would like to suspend the rules and call upon the Administration to present their Fiscal Year 2022-2023 Budget overview. Members, I ask that you please hold all your questions until the end of the presentation. I believe there might be a video from the Mayor.

There being no objections, the rules were suspended.

Administration's Budget Overview

(Prerecorded video message from Mayor Derek S.K. Kawakami.)

DEREK S.K. KAWAKAMI, Mayor *(via prerecorded video)*: Aloha Council Chair Kaneshiro and Members of the Council. *Mahalo* for this opportunity to present to you the County of Kaua'i's proposed Operating Budget of \$260,200,000 and Capital Improvement Budget of \$48,900,000 for Fiscal Year (FY) 2023.

This submittal marks the third budget submitted by my administration during the COVID-19 pandemic. Looking back to March 2020, I never would have imagined the long road we faced. While we are beginning to see glimpses of life beyond COVID-19, the volatile

economic climate it caused is by no means behind us. From the most recent rockfall event in Waimea, the growing conflict in Eastern Europe, and the rising inflationary conditions, we know there are more challenges ahead. Our fiscal position is delicate as we face these headwinds, but we stand ready.

During the past two (2) years, we were fiscally conservative and maintained a strict approach to our operational spending. We deferred planned fee increases and used our Reserve Fund to avoid personnel layoffs and furloughs. We relied on federal support, which helped to keep both our County operations and our local businesses afloat during financially challenging times. As we continue to navigate economic turmoil, we are again grateful to your leadership and partnership on the Council for building an emergency Reserve Fund that has provided us a safety net.

This year's budget outlook is unique. Our anticipated revenues come in at about 25% over last year—all without increasing any real property tax rates. The primary contributors to this increase come from higher real property valuations due to market conditions, the reclassification of the Residential Investor tax class, and the full realization of the T.A.T.—which we anticipate to bring \$19,000,000 in revenue support for FY 2023.

However, while more revenue offers us flexibility with this year's budget proposal, we know this will not be our long-term financial position—not without changing the overall tax structure or increasing rates. This provides us a short-term opportunity to be strategic in our actions. With FY 2023's revenue picture, we have an opportunity to make up for deferred operational needs by investing in our associates, our infrastructure, and our community—all without assuming additional general obligation debt or raising tax rates and fees.

To achieve these goals, we have prioritized need-to-have items over nice-to-have, with a focus on investing in the future. Now is the time to replace aging vehicles and equipment for our associates. Now is the time to establish or fill critical positions, while short-funding other positions—all while avoiding layoffs and furloughs. And now is the time to address deferred infrastructure needs.

This year's proposal continues to adhere to the principles of a “structurally balanced budget,” which does not rely on the use of General Fund, Fund Balance for any recurring expenditures. Salaries, benefits, and collective bargaining expenses make up 62.2% of the total budget, and 82.3% of the General Fund budget, leaving less than 20% for fulfilling our core functions and services.

We will focus on infrastructure and repairs by tackling deferred and preventative maintenance projects, with approximately \$26,000,000 in new General Fund-CIP this year. This approach would replace a typical bond issuance to finance these expenses, and save the County from debt service interest costs. As our G.E.T. revenue continues to support the repaving of our roads, this year's budget appropriates \$15,600,000 in repaving expenditures, with another \$4,300,000 in CIP-related road costs.

Focusing on our wastewater infrastructure is also a top priority as we pump millions of dollars into repairs and upgrades of our wastewater systems that are long overdue.

We remain equally committed to finding a long-term solution to manage our solid waste program, which includes a study to site a new landfill location, and identifying more solid waste diversion opportunities.

In addition to focusing on our basic infrastructure needs, we must invest in the health and wellness of our community. This budget prioritizes our Parks and Recreation programs and facilities, starting with our CIP projects for islandwide playground and playcourt repairs. Additionally, four (4) new positions for Parks are included in this year's budget proposal, including a new maintenance team to cover public assets in and around the Līhu'e Town Core area, and a dedicated Park Ranger to help us manage and maintain the Bryan J. Baptiste Sports Complex, which has become a gathering place for our *keiki*.

As we know, affordable housing also remains a critical priority as we utilize public lands and leverage external funds to help us develop affordable housing. This year, we restore the Special Projects Housing Fund back to pre-COVID levels, committing \$3,000,000 toward building more housing for our people.

Lastly, since day one we have emphasized the need for Information Technology (IT) infrastructure and security. We rely on these systems in our day-to-day operation, and a failure could result in crippling disruptions. While we have made great strides in this digital age, we are still behind. We have proposed two (2) new IT positions to support our increasing hardware maintenance demands and strengthen our cybersecurity.

From addressing our deferred infrastructure needs, caring for our community's health and well-being, and providing our associates the tools to do their best job, we know we have our work cut out for us. But we welcome the challenge.

As we reflect on the past three (3) years, we are grateful for the challenges that we have overcome, and are confident that we will overcome the challenges that lie ahead. Together, we can build a solid foundation for the next generation.

This is a time in history that we will never forget. I thank you, Councilmembers, for your leadership, partnership, and continued support as we work together to build a better Kaua'i. I look forward to your input on our budget proposal. *Mahalo* and *aloha*!

Council Chair Kaneshiro: With that, we also have Ken on. He will do a budget overview for the County. You should have his presentation in front of you. Once Ken completes his presentation, Councilmembers can ask questions on the presentation and the Mayor's Budget submittal.

KEN M. SHIMONISHI, Budget Administrator (*via remote technology*): Aloha, Council Chair Kaneshiro and Members of the Council. Ken Shimonishi, Budget Administrator. Before I get started, I see the Managing Director present. Mike, is there anything you would like to say prior to the presentation?

MICHAEL A. DAHILIG, Managing Director (*via remote technology*): I think the Mayor summed it up in his address and we are ready to rock-n-roll.

Mr. Shimonishi: Looking at the Budget overview presentation beginning on Slide 2, as the Mayor mentioned, we continue to adhere to the elements of our Long-Term Financial Planning that we undertook several years ago. The Budget submitted continues to conform to our Structurally Balanced Budget Resolution where recurring expenditures should be covered by recurring revenues. The second bullet point, the Reserve Fund and Reserve Fund Policy Resolution, for the FY just ended June 30, 2021, which I know yesterday was the overview of the actual with the auditors, but the County basically ended with \$42,800,000 and \$6,400,000 under our target of 30%, which would have put the reserves at about \$49,200,000. Keep in mind we did not have TAT revenue in that FY 2021. Also note that in FY 2022, we passed several ordinance amendments since then, most notable the recognition of County TAT revenue, which was effective October 1st. That should put the County close or near to the 30% target. The last bullet point, FY 2023 Budget Proposal, we do not propose any rate increases or the use of the General Fund, Fund Balance, other than to reclassify \$150,000 to the Self Insurance Fund, which really is just another form of keeping the reserve in a bucket.

Slide 3, as the Mayor mentioned, our revenues increased by \$57,000,000 or roughly 25%. \$50,000,000 of that roughly is in the General Fund or an increase of 29.5%. Our G.E. Tax Fund saw an increase of \$6,200,000 or 31.5%. Our Liquor Fund—\$121,000 or 15%. Sewer Fund—\$1,600,000 or 19.4%. Keep in mind that the FY 2022 Budget was somewhat adjusted obviously for the economic impacts of COVID-19 and thus the entire increase is not necessarily an apples-to-apples type of analysis. On Slide 4, a little bit more narrative of the changes that we noted. Of the General Fund increase of \$50,000,000, \$30,300,000 came from Real Property Tax revenues and \$19,000,000 from TAT which was not budgeted in the prior year. On the Highway Fund, we remain relatively flat with an increase in the Public Franchise Tax of \$233,000 and this was offset by lower than budgeted amounts and reduced the estimates of Bus Fares of \$50,000 and Interest Income reduction of \$30,000. The G.E. Tax Fund—increase of \$6,225,000 or 31.5% based on current collections and projected revenues prior to COVID-19. As we get into the revenue section of the hearing today, we will get more into the details of how we came up with those numbers. The Liquor Fund increased by \$121,530 and this was based on projected sales. The Sewer Fund has an increase of \$1,650,000 based on current collection activity and estimates going forward.

For our overall Operating Budget elements by category, on Slide 5, the total Budget increased by \$16,800,000 or 6.9%. \$13,300,000 increase in our Salaries and Related, or 8.9%. Utilities, roughly \$300,000 or 4.8%. Operations, \$3,600,000 or 4.6%. Open Space relative to

the Real Property Tax revenue generated and then we saw a decrease in our Debt Service of \$463,000 or 4.4% decrease due to the refinancing that occurred in FY 2021 and amortization schedule that was revised. Slide 6, a little bit more narrative of the table that we just went over. Salaries & Related increased...keep in mind that we also are budgeting for our Transportation Agency personnel returning to the County's budget whereas last year there was a one-time use of Federal funds for the majority of the staffing for that agency. We also have embedded collective bargaining impacts known and estimated benefit increases, as well as additional staffing. On the Utilities, the increase of \$300,000 were in the areas of electricity \$173,000; internet \$76,000, and water of \$35,000. As far as our Operations—the \$3,600,000 increase, we note that the insurance increased by roughly \$500,000 and this is based on the most recent renewals plus a 10% inflationary factor. Consultant Services increased by \$630,000; \$420,000 in Public Works (Solid Waste and Wastewater); \$100,000 in Housing; and \$56,000 in Elderly; a realignment of some appropriations that agency. Our Special Projects increased by \$447,000. There was actually a decrease in Finance in that area. \$75,000 increase in Housing and Community Development, and \$400,000 in the Housing Revolving Fund, and that relates to what the Mayor had mentioned where last year we contributed \$2,600,000 and this year we are contributing \$3,000,000 to the Affordable Housing Project from the General Fund. Supplies & Equipment increased by \$737,000; \$140,000 of that is in Finance-IT; \$192,000 in Parks; \$130,000 in Solid Waste, and \$124,000 in Sewer or Wastewater. Loans & Interest increased by roughly \$600,000; \$205,000 in Solid Waste and \$182,000 in Sewer, and this is related to the Clean Water State Revolving Fund (CWSRF) funds that we incur as we move forward on these projects. \$205,000 in the Housing Revolving Fund, which is related to Lima Ola. Vehicles & Equipment increased by nearly \$700,000; \$378,000 in Solid Waste, \$55,000 in Highways, \$244,000 in Transportation, and \$106,000 in Parks. Again our Open Space remains at the .5% contribution rate and the decrease in Debt Service, which I mentioned, related to the refinancing.

On Slide 7, a look at our overall Operating Budget elements by category in graphical form. You will see the pie chart on the right references Salaries & Related as a percentage of the total Budget increased by 1%. Everything else is relatively the same. Our Debt Service, again, slightly lower due to a reduction there, but other than that, pretty much in line. Looking at the expenditures excluding our Debt Service and Public Access fund. The departments that make up the budget, most notably the Public Works Department is the largest department. In FY 2022, Public Works represented 32.4% of that appropriation in FY 2023 30.9%. Again, note the change in Transportation, where we are going from 2.8% to 5% this year, because of the return of the use of one-time funds in the prior year and returning to the County Budget this year. The second largest department would be Police, followed by Fire, and then Parks.

Challenges ahead. Aging infrastructure. We know that there are significant amounts required to fund our infrastructure repairs. The new landfill, the ongoing need to regularly replace heavy-duty equipment and vehicles, the maintenance of our aging facilities, and obviously collective bargaining, which is the largest expenditure that we have and continues to put pressure on our budgetary flexibility. Just note that the budget information is

available on our website under the Financial Transparency portal. For our public, as well as any of our in-house users...you can look at the most important reports on the budget, which would be our annual Operating Budget Ordinance, which shows the ordinances year-by-year, as well as the budget comparison, which would be between this year and last year's approved budget. As far as the budget detail that was submitted to the Council, the Budget Ordinance of Section 2 note that we have page numbers at the bottom right. This was because when we compiled the Budget, we are inserting reports and analysis from different systems, so we inserted those page numbers for your references. Also the .pdf file of the Budget Ordinance should have bookmarks on the left to ease in your navigation. With that, that was the overview. Are there any questions?

Council Chair Kaneshiro: Ken, thank you for that. Let us start with questions on Ken's presentation first and then we can go back to the Mayor's Budget Submittal. Ken, if any of the questions you think will be better answered with the certain department or if we ask a revenue question that you think might be better answered later today in our Revenue discussion, just let us know. Councilmembers, are there any questions on the presentation by Ken? Councilmember Cowden.

Councilmember Cowden: On Slide 4, you talked about the Sewer Fund having an increase. Is that an increase in rates or an increase in new clients? I thought our sewer was relatively static, so I just wondered in terms of how many people are on it? Did we raise the rate or did we get new clients?

Mr. Shimonishi: Those are not rate related increases, but rather the department's projection on volume. Again last year we took the revenue numbers down, so based on the most recent volume and activity, which could include new clients, that is the estimate that the department provided. It is not related to any rates.

Councilmember Cowden: Okay. I said it yesterday, but want to say it again, in looking at Slide 6, with lowering Debt Service. I just want to appreciate the Finance Department for their constant effort in looking at how to maximize low interest rates, because Debt Service on any household or organization of the County is important. Good job to Finance.

Mr. Shimonishi: Thank you. To clarify, the sewer rate is primarily attributable to the Commercial use.

Councilmember Cowden: Okay.

Council Chair Kaneshiro: Yes, Commercial and Industrial get charged based on their use. I believe last year with stay-at-home orders and people working from home, they anticipated lower revenues because less people were flushing toilets at the industrial buildings and commercial buildings, and so this year with everyone getting back to work, they upped the projection or they have seen an increase in the projection.

Councilmember Cowden: Okay. Thank you.

Council Chair Kaneshiro: Are there any other questions on the presentation? Councilmember Kuali'i.

Councilmember Kuali'i: I am really happy with the presentation of the materials thus far and I think this may be the best budget I have looked at yet. My broad question is on Slide 6 and it may not be something you can answer now, but maybe you can point me to the right place. On Slide 6, the second highlight is Utilities and the increase is \$289,000. When we look at all the different departments separately, it is going to be small amounts and I will not see the big picture, but seeing the big picture here, my question basically is where can I get...maybe it is in the Office of Economic Development, the work that is being done on the County being more energy efficient? For example, the increase in electricity of \$173,000—how much of that increase is because of Kaua'i Island Utility Cooperative (KIUC) rates, because we are expanding facilities and programs and so using more electricity because we are providing more services to our constituents, and then the flipside of that is what about the energy savings that we are getting because we have been implementing programs that are actually saving us money. Ideally, the future, I hope, will be one in which we have so much energy savings components in place that will either keep the cost flat or start bringing it down. It is a big question and if I do not hear back on it until the end of the budget, that is fine, because it is just a broad thing.

Mr. Shimonishi: Thank you for the question. A comprehensive response would need time to be looked at, but I can tell you for the budget, of that \$289,000,000, \$150,000 was requested from the Department of Public Works who pays the utility bills for our facilities here and that is just directly related to cost increases as we see fuel going up and so on. Also, the Department of Parks and Recreation came in with a request of \$54,000 higher than the prior year. The internet, primarily I believe is related to transportation and that was roughly \$72,000. That is how it is broken down by department in terms of the \$289,000,000.

Councilmember Kuali'i: Thank you.

Council Chair Kaneshiro: Councilmember Cowden.

Councilmember Cowden: I want to make another comment. I just want to thank both the Department of Finance and the IT Division for the good online budgetary tools. I appreciate the hard copies and then the online and how people can be going in and looking at it from the community. I did not want to pass that by. Thank you for the graphs and everything else.

Council Chair Kaneshiro: Are there any other questions from the Members on Ken's presentation? If not, thank you for the presentation. It was presented very well

and very clear. Do we have any questions on the Mayor's video or his budget submittal? Mike is available to answer any questions. Councilmember Cowden.

Councilmember Cowden: I did note when he was speaking, I appreciated how he laid out how much is being spent in which areas and I believe he made the comment that, "Less than 20% of the budget is for core functions," but when I am looking at Ken's, it looks like it is 31%. What is that difference?

Mr. Dahilig: It is a reference to the different funds, so when you look at General Fund support, less than 20% of that expenditure is actually for non-salary related items. That is what that reference was meant to refer to.

Councilmember Cowden: In Ken's presentation when we are seeing the bigger number, I was happy to see the bigger number there, 31% goes to Operations. So those Operations might include salaries in there, is that what we are seeing with that? We have salaries separated from operations.

Mr. Dahilig: The big amounts, when you look at the breakdowns by fund...

Councilmember Cowden: I am looking at page 7.

Mr. Dahilig: ...that G.E.T. expenditure on road repaving is not considered a salary item. That is not necessarily an operational expense as considered part of the overall non-salary repaving program.

Councilmember Cowden: Okay. Thank you.

Council Chair Kaneshiro: Councilmember Kualifi.

Councilmember Kualifi: One is on the written submittal from the Mayor, under Revenues. It talks about the new TAT program and \$19,000,000. I think I saw someplace where it took our Department of Finance some time and extra effort to put a system in place to be able to get this going, which of course is important to replace the TAT revenue that the State took. Now that we have this program in place and we are collecting our own TAT moneys, what are the additional costs of operations. Are there additional positions in place to take care of this and will we see it in the Department of Finance budget?

Mr. Dahilig: Yes, Councilmember Kualifi. The Council authorized three (3) positions as part of the portion of TAT that was collected for this current Fiscal Year. When we came to you to make that adjustment, there were positions in there. They are currently either going through recruitment or at the cusp of hiring. Director if Finance Matsuyama can go over the statuses of those collections during her presentation. There are still ramp-up efforts going on to fully operationalize the collection of that tax. She

will happily remind everyone that she is also processing TAT collections herself. That is kind of where we are at at this point to fully have a ramping of operations to have a TAT shop going.

Councilmember Kualii: Just as you are telling me all of that, I am now remembering that. I think it is good for people to know, too. Then the last point on the written submittal on page 5, the return of Federal earmarks. That is related to the return of Congressional spending, is that correct?

Mr. Dahilig: That is correct.

Councilmember Kualii: It says that we "anticipate moneys" for the second phase of Lima Ola at \$9,800,000 and for the Level 3 electrical vehicle chargers in the amount of \$900,000. By using the word "anticipate" have we already received some kind of award?

Mr. Dahilig: A lot can change in nine (9) days, Councilmember. When we wrote this back on March 15th, the House and the President had not fully moved on having this be enacted into legislation. We know that the Bill has passed. We are actually working on a transmittal to the Council to receive and expend these moneys as part of the earmarks. We are still trying to sort out what avenues these moneys are going to be brought through us regarding which Federal department. Typically with earmarks in the past, a lot of things came through the Secretary of the Navy. In this case, because of the tighter controls and the discretionary choices that Members of Congress are able to make in terms of allocation, we may see it align with different departments. For example, with the Level 3 chargers it may come from the United States (U.S.) Department of Energy. We may see Lima Ola moneys come from the Department of Housing and Urban Development. We are still trying to sort that out. We have calls with the Congressional offices next week Wednesday to get briefed on what they know as the avenues for the plans for distribution, but we will be coming to the Council for receipt and expenditure authorization on these two (2) items.

Councilmember Kualii: I guess I thought of one last question. On the Sewer Fund, the language is somewhat vague. It is basically telling us that we had a General Fund transfer of \$3,700,000 to help subsidize the Sewer Fund. Then it talks about safety, infrastructure aging, and the increased maintenance effort. It talks about without fee adjustments, it would have to be a further demand or a greater General Fund subsidy. Basically, that is spread out amongst the entire tax base. A lot of the moneys, which is servicing the sewer system is particularly benefitting the sewer users. Is the County looking at the balance of how much of it should be subsidized by all of the taxpayers and how much more if even just a little bit more should be paid for by the users themselves?

Mr. Dahilig: In response, Councilmember, that is exactly the policy balancing question. Before COVID-19, if you recall, we actually had a rate increase proposed to the Council. That was back in 2020. It tried to align that balance of what is an appropriate burden for the overall tax base to carry for an island that predominantly is not

serviced by a County sewer system. That is where we felt going into the pandemic it was not appropriate at that time to then push a whole fee increase onto anyone on the island for any reason or any type of activity. It is a question that as we move forward, still needs to be addressed. The budget does not include a fee increase for sewer, however, it is something that as we progressed into the larger CIP development, that when we actually get to construction of deferred maintenance repairs and those types of things that the question of who bears the burden of the debt service is ultimately going to have to be balanced with what is an appropriate rate to reflect that increase in construction activity. At least for this particular budget what we are doing as mentioned in the Mayor's address is focusing on the expenditures that cannot be covered by external types of debt service like our CWSRF program with the State of Hawai'i. We are earmarking County funds for this type of activity in the proposal. However, looking forward, that increase in debt assumption through the Federal subsidized programs, through the SRF program may lead to a discussion about as that debt service grows, what is that reflective increase in the rates that may need to cover that as time goes on. I think that as we get through the presentations on Monday with the Department of Public Works staff, they can give you a clue as to what projects they are earmarking as necessary for health and safety issues. Ultimately, that CIP portion of the Sewer budget is marginally going to start driving that downstream conversation on proportionality in overall tax base versus services in terms of fees, and whether or not the projects moving forward meet the veracity of need based on the Council's shared powers of appropriation. I think that is a relevant conversation for Monday.

Councilmember Kualii: Thank you. Thank you very much.

Committee Chair Kaneshiro: Council Vice Chair Chock.

Councilmember Chock: I have a follow-up. Thank you, Mike. The rate study was funded and are we in a holding pattern? Is that what I am hearing? Are we waiting so that we can look at the bigger picture and then complete that?

Mr. Dahilig: The rate study that was completed prior to the pandemic is no longer valid to meet the State requirements for enacting a utility fee. There are a whole level of things that need to be done. We are in the process of evaluating it, but at the same time, it cannot be complete without understanding what the CIP program for deferred maintenance construction is then going to carry as the inputs to calculate an actual fee. That is where the conversation with this budget will start dictating some of the completion of that analysis for that potential sewer fee increase scenario. At this point, it varies based on what the CIP program looks like. There is nothing at this point that we can with actuality could actually say could be the increase.

Councilmember Chock: Okay.

Committee Chair Kaneshiro: Are there any other questions from the Members on the Mayor's budget submittal? If not, we can go directly into the budgets if you are ready.

Office of the Mayor (including the Office of Boards & Commissions)

Committee Chair Kaneshiro: Next on the schedule is the Departmental Budget Review for the Office of the Mayor, which includes the Youth Work Program and the Office of Boards & Commissions. I will turn the floor back to Mike. We received your written narrative for your budget, if there is anything you would like to share on that. We can then open it up for questions specific to the Office of the Mayor budget.

Mr. Dahilig: Specifically with the 101 account, we are pretty much proposing a flat budget. You will see the normal increases due to either salary costs or Other Post Employment Benefits (OPEB) are predominantly the cause of increases of approximately \$110,000. That is pretty much it for at least the 101 items. If you move to the next item, that is just the typical Kaua'i Economic Development Board (KEDB) summer work program that we do to support our *keiki* to get work experience over the summer breaks. Sorry, am I moving too fast or should I hold off on each?

Committee Chair Kaneshiro: We can hold off on that and then we can have Ellen do the Office of Boards & Commissions section. Now we are in the actual Office of the Mayor's budget. Do we have any questions from the Members? I noticed that you made a change to a Communications Officer, and changed the name from Public Information Officer.

Mr. Dahilig: Yes. Right.

Committee Chair Kaneshiro: What is the justification for that?

Mr. Dahilig: It is reflective of a restructuring in our Office to handle communications and our additional audio visual work items.

Committee Chair Kaneshiro: Okay. Are there any other questions from the Members? I saw our Lobbyist fee went up, but I know that when we were in D.C. in speaking with Senator Schatz, he said that us having that D.C. Lobbyist is actually a huge benefit to the County of Kaua'i. Our information and grants or whatever we are applying for comes in a lot cleaner than the other counties. It is a good service that we have and it is beneficial to our County specifically. I am okay with that small increase. Councilmember Cowden.

Councilmember Cowden: Just to follow up on that, I am okay with that increase as well. When we lost Senators Inouye and Akaka and that was a very big change to our ability to just access a lot of funds as a small state. I think it was an important and necessary step that happened in Mayor Carvalho's time. I was relieved that it happened and I am relieved to see that it continues. We have really done a great job at getting a lot of these Federal grants. I am really appreciative of our standing in terms of being lendable. We have talked about this Employees' Retirement System (ERS) increase. Just to help me through the whole conversation, can you give me again the details of how our ERS increase happened?

Why did we experience this large increase? I think it has been explained, but it has been a while since we heard from the ERS people.

Mr. Dahilig: I am not an expert or even fully knowledgeable in both how OPEB or the retirement system sends down a bill to us to say, "this is how much you have to pay this year." I would probably suggest, Councilmember, that when Annette and her team come up during that Human Resources period, that would probably be a better question answered by them instead of by me. I will say though that at this point it is pretty common knowledge that healthcare costs continue to increase at a pretty fast clip. That OPEB amount for retirement, as they are putting moneys away for what could be the downstream financial liability to the healthcare insurance system for government employees, is why you are also seeing that start to increase. There are State laws that are requiring full funding at some point in the future as mentioned in the Mayor's overall budget message. We are not deferring any of those payments. We are being responsible by paying 100% of what we believe is our responsibility. Like anything, these are actuarial types of projections that I probably could not explain.

Councilmember Cowden: When we look at these operational challenges from 2022, there are hopefully going to be a significant difference in the last year to next year as we reopen to the public. I know some areas in our government were actually able to work a lot more efficiently in some ways in terms of getting permits, et cetera. Do we see an increase in the workload and the staffing needs or not in the Office of the Mayor?

Mr. Dahilig: At this juncture, I would say that at least in our Office, we made a couple tweaks in terms of repositioning administrative support staff to more communications staff. That was something that we had to make a pivot to in the past year and a half or so with the pandemic and it seems to actually be working as a better structure within our Office. For the most part, the dozen or so people who are here work tirelessly. We have been very blessed to have who we have in the office and we have been able to meet at least the public-facing demands on communication, servicing questions, and those types of things. I would also like to add, Councilmember Cowden, another thing to consider with the ERS cost and the increase in the OPEB costs is that we sent to the Council at least the first collective bargaining reopener settlement with the United Public Workers (UPW). It reflects an increase for their salaries of a little under 4%. Going forward it would be 5% and 5%, right? It is almost a 14% increase for the four-year period starting from last year. That also contributes to the increase in the OPEB and retirement contributions. Knowing that we have a three-year target of approximately 14-15% with at least one bargaining unit, that is something that when we go through the discussions with that particularly Bill in approving the increase in settlement from UPW, you will see that probably spread across all of the departments...

Councilmember Cowden: Does that include our Ocean Safety Bureau?

Mr. Dahilig: ...for that cost responsibility. That is why we mentioned in the overall budget message that our biggest collective bargaining costs have not at this point come into full play yet, because of the full realization of the collective bargaining agreement is not going to be realized until later on in subsequent fiscal years. That is why that window of trying to push things towards deferred maintenance is becoming apparent at least with this Fiscal Year's budget. Ken raised his hand earlier, so he may have a little bit more insight on the ERS item if that would help, Councilmember.

Mr. Shimonishi: *Aloha*, Councilmember Cowden. As Managing Director Dahilig mentioned, you will see this pattern across the other departments as well. We have embedded a collective bargaining allowance in addition to what we already know. If the Council would like to see further details on that, we could transmit that via confidential cover. Obviously, we expect to continue the arbitration process, so we would want to be careful on what we are disclosing.

Councilmember Cowden: Thank you for that important piece of information. Thank you.

Council Chair Kaneshiro: Are there any further questions on the Office of the Mayor's Budget from the Members? If not, we can move on. Does anyone have questions on the Youth Work Program? The budget stayed flat at \$10,000. Are there any questions from the Members on that? Councilmember DeCosta.

Councilmember DeCosta: Is that the one that provides agricultural internships with the students from agriculture partners in Kīlauea. Is that part of that, Mike?

Mr. Dahilig: I believe it is, but I have to double-check with our staff. I believe that is one of the items that gets some subsidy from this program. Ultimately, I think Kaua'i Economic Development Board (KEDB) makes it available to a number of different sectors, so that could be, but let me get a confirmation on that, Councilmember DeCosta.

Councilmember DeCosta: Thank you, Mike.

Council Chair Kaneshiro: Are there any other questions? If not, we will move on to Boards & Commissions on page 9. Are there any questions for Boards & Commissions? Councilmember Kuali'i.

Councilmember Kuali'i: On Boards & Commissions, the line item that says advertising went up and I see the explanation about publications to Charter Amendments and digital public information campaign. Is that something new that is now under Boards & Commissions? Why is that now and has not happened in the last couple of years?

ELLEN CHING, Boards & Commissions Administrator (*via remote technology*):

Thank you for the question. I want to start off with saying how proud I am of the Charter Review Commission for the innovation and outreach to the public. This line item is to replicate a digital public information campaign that was conducted in 2020 on the ballot questions. What happened was digital advertisements were created. There are three (3) types that have been used: Facebook, Instagram, Google search, and Google banner advertisements, and there are nineteen (19) different advertisements created. I believe this is the first time in the State that a campaign like this was conducted and the campaign ran for about a month. So when these advertisements came out and they were targeted to registered voters, if people clicked on the link in the advertisement, they were taken to a landing page that had all of the information on the ballot questions. I believe that this was a very successful campaign. The results of this were that all six (6) ballot questions were adopted. The only other time that happened was in 2014, 2004, and 1986; however, those years, 2014 had three (3) questions, 2004 and 1986 only had one (1) question each. The blank votes on the ballot questions were cut down by a third, which is really significant and all of the comments that were on the Facebook advertisements were very positive from individuals saying this is the easiest that they have found to get information and they were very happy about the outreach on providing information to voters.

Councilmember Kualiti: Thank you. I am glad to hear all of that.

Council Chair Kaneshiro: Councilmember Cowden, follow-up question.

Councilmember Cowden: I have a follow-up. On these Facebook, social media, or digital advertisements, are they giving both sides of the debate equal balance? We have had prior, to your term, when it goes into the press it biases towards the passing of the Charter Amendments, so I think it is important that we give both sides and they are given equal emphasis on this digital information.

Ms. Ching: Thank you for the question. All of the advertisements had a tagline that this was from the Charter Review Commission, so any information provided regarding the ballot questions mimic the exact...one of the things in the Charter that we are required to provide via the Charter Review Commission is a publication where the full text, the ballot question, the purpose, and the background on each ballot question, so these advertisements and the landing page basically provided that same information.

Councilmember Cowden: Okay. I just want to say what has a lot of value in that is that it is very expensive to put all of that in the newspaper, so this would be every day. Anytime someone wants to go. I want to say that having participated in Charter Review Commission meetings over the prior years, is very often the question is framed so people will say "yes" the information is selected. I have not observed it to be a balanced output, so sometimes that is a little concerning. I agree that putting it out this way is probably the most effective use of getting information available, because it would be very expensive in the

newspapers and most people do not get the physical paper, so they would not even see it. I support this expense. I need to write to the Charter Review Commission to encourage them to consider giving equal representation of both sides. I am not suggesting they are not this year, but they do not always. I think that is important.

Council Chair Kaneshiro: Are there any other questions from the Members?
Councilmember DeCosta.

Councilmember DeCosta: Hi, Ellen, how are you?

Ms. Ching: Good morning.

Councilmember DeCosta: I wanted to ask if you could help me understand, what do you mean by "other small equipment"? Is that copy machines, printing machines, or computers?

Ms. Ching: No. It might be plexiglass holders for notices.
Very small things, not anything major.

Council Chair Kaneshiro: The description says "replacement equip, recorders, foot pedals, microphones, stands, chairs, etc."

Councilmember DeCosta: Okay.

Council Chair Kaneshiro: Are there any other questions for Boards & Commissions? Councilmember Kualii.

Councilmember Kualii: I do not have a question, but I want to say thank you, Ellen, for that explanation of the \$30,000 and that, in fact, when I asked my question I had missed seeing the 2021 column, so knowing that it is a replication, I probably would not have asked the question, but it was interesting to hear about all the details. Thank you.

Ms. Ching: Chair, may I make a statement?

Council Chair Kaneshiro: Yes.

Ms. Ching: I wanted to also reassure the Councilmembers that when we do the publication in the paper, as some of the Councilmembers have stated, not everyone sees the paper, and not everyone gets the paper, but we also publish an insert into the paper, and we publish additional inserts, so that we give one hundred twenty (120) copies to the Council Services Division and to the Office of the Mayor. So, if anyone wants a copy and we have some copies here, they can contact us, or if they are at the Office of the Mayor or at the Council Services Division, they can actually get a copy and take it home. I

just want to reassure you that we really do try to make our best efforts to get that information out there.

Council Chair Kaneshiro: Thank you. Are there any further questions?
Councilmember Evslin.

Councilmember Evslin: Chair, can I go back to the Youth Work Program?

Council Chair Kaneshiro: We will go back this once; we are not going to go back in the future.

Councilmember Evslin: I do not know if it was explained, but is this the program that hires the youth interns? I know Councilmember DeCosta asked about the farming program. I know in the past there was a program that hired interns to work in the County, is this that program? It was put on hold last year, is it now in full force?

Mr. Dahilig: We anticipate so.

Councilmember Evslin: Awesome. It is such a great program. Glad to see it ongoing here.

Council Chair Kaneshiro: Councilmember Cowden.

Councilmember Cowden: I have a follow-up. \$10,000 does not seem like enough for it. I helped at Kapa'a High School this week. Great kids there. Unbelievable in that industrial technology and engineering class. I gave them the County's name so many of them are good for internship that I think would be great. I wanted all of them or half of them to come help us. I hope that we do get some of our beautiful emerging generation to come help at the County this summer. IT that means you too, and the Roads Division.

Council Chair Kaneshiro: Councilmember DeCosta.

Councilmember DeCosta: I have a follow-up for Councilmember Cowden.
Half of those are my students...

Councilmember Cowden: Amazing kids.

Councilmember DeCosta: ...in the IT program that I teach. Thank you for recognizing. They are great future community leaders.

Council Chair Kaneshiro: Are there any further questions for the Office of Boards & Commissions?

Revenue Forecasting (including Real Property Taxes & Other Fees)

Committee Chair Kaneshiro: If not, we are going to move on. We will proceed to Revenue Forecasting. There have been no Real Property Tax rate increases or revenue enhancement measures proposed by the Administration. During this time, we will usually review the schedule of charges and fees, which has been no changes. This is a presentation, so I will leave it up to whoever is doing the presentation on the revenue overview.

Mr. Shimonishi: This is a brief presentation. I guess the first slides, page 2, recaps the revenue that we went over on the overview. Then the subsequent slides will cover the Real Property Taxes, our biggest source of revenue. I believe Director Matsuyama or Real Property Tax Manager Mike Hubbard will speak to those. I am not sure if you want to stop at that point and follow up with questions, but then we have a few more slides going over the larger pieces of revenue, then after that the detailed worksheets, which I do not intend to do a screen share because of the detail involved on those. With that, I will turn it over to Director Matsuyama or Mr. Hubbard on the Real Property Taxes starting on Slide 3.

Council Chair Kaneshiro: Let us go through the whole presentation now, then we will ask questions after.

REIKO MATSUYAMA, Director of Finance (*via remote technology*): We are going to start on Slide 3, talking about Real Property Taxes. Of the \$250,000,000 of General Fund revenue that we budgeted in Fiscal Year 2023 that Ken just showed on Slide 1, approximately, \$188,000,000 of that is from Real Property Taxes, so a good chunk of our general fund revenue is derived from the Real Property Tax Assessment Office. The last couple of years have had a drastic increase in assessed values. Credit to our appraisers who are the ones who are tasked with keeping up with market trends and then defending our values on the real property values. The appraisers found nearly \$30,000,000,000 in assessed value for Fiscal Year 2023, which is \$3,400,000,000 or 12.8% more than the prior year. Overall, the parcel count on Kaua'i remained about the same with our big swaying from Residential to Residential Investor, that is due to the reducing the threshold from \$2,000,000 to \$1,300,000, so this also reduced the average property value if you look to the far right, for Residential Investor from \$4,600,000 to \$3,000,000, but that would have been the only decrease that we saw an average property value throughout all tax classifications.

Moving to Slide 4. Slide 4 is the summary of our appeals. You will see a reduction in overall appeals of about 17% mainly due to a decrease from our Hotel and Resort tax classification. They were hit hard during COVID-19, so we reduced some of their assessed values during that time, but now they are back up. That decrease was offset by an increase in appeals in the Agriculture tax classifications. Basically, we have one (1) person file one hundred (100) appeals, so that is skewing the number a little. Despite the reduction in the number of appeals, more values at stake. If we look on the right side of the table, values in

dispute went from \$323,000,000 to \$426,000,000 so an increase of 31% and that is due to a few large Commercial appeals with high value amounts.

Slide 5 dives into actual revenue and that is broken down by tax classification. The overall Real Property Tax revenue is up 19%, which is over \$30,000,000. If you look at the two (2) columns that equal 100%, the percentage of revenue brought in by each tax class is relatively consistent year-over-year, except as it relates to the change in the definition of Residential Investor, as we talked about earlier. Outside of that tax class, you see double digit percentage increases in all the tax classes except for the owner-occupied tax classes, and those are the ones that are protected by the 3% cap.

Moving to Slide 6. Slide 6 is side-by-side charts of assessed value percentage versus tax revenue percentage. The blue bars represent what percentage of total assessed value that each tax class makes up, and the red dots represent the percentage of revenue that each tax class brings in. For example, if you look at the Homestead tax class where the blue bar is the highest in both Fiscal Year 2022 and 2023, for Fiscal Year 2023 the Homestead or owner-occupied tax class makes up 27.1% of the total assessed value for the County. It only brought in 9.4% of the total Real Property Tax revenue. On the flip side, Vacation Rental, Hotel and Resort, and Residential Investor—our three (3) highest tax rates—make up a higher percentage of our tax revenue than they do of their assessed value.

Slide 7 looks similar to Slide 6, but showing very different information. This is market value versus taxable value. The blue bars represent market value, which is always higher than the red dots, which represent taxable value. The taxable value is what we use to calculate a person's actual tax liability. Taxable value times tax rate equals what you pay. The gap between the red dots and the top of the blue bars represents our tax relief programs that the Real Property Tax office works really hard to provide. You will see relatively small differences like the gaps between the red dots and the top of the blue bars, you will see small differences between most of the tax classes, being that we do not offer too many tax relief programs for those tax classes. The value that they pay on taxes is almost equal to their market value. The largest differences that you see are in the owner-occupied tax classes, so Homestead and Commercialized Home Use. In Fiscal Year 2023 market value was over \$10,000,000,000 in the Homestead tax class, but taxable value that we use to calculate the amount paid was only \$5,800,000,000, a difference of \$4,200,000,000, so you will see a lot of tax savings. Similarly for Commercialized Home Use, market value is nearly \$2,100,000,000, but the taxable value was less than \$1,300,000,000. These two (2) classes are the ones that enjoy the 3% assessment cap where their taxable value cannot exceed a 3% swing year-over-year. While market values are soaring in this increasing market, all owner-occupants are protected by the cap. It is evident even further when you look at the charts year-over-year, where you see market value in the Homestead tax class went from \$8,800,000,000 to \$10,000,000,000, but the taxable value only increased by less than \$300,000,000. The other tax class that generates a decent gap between the red dot and the top of the blue line is Agriculture. That is where most of the properties participate in the Agricultural Dedication program reside. In Fiscal Year 2023, the market value for those properties was

\$2,400,000,000, but assessed value was under \$1,300,000,000, so it makes that tax class nearly half of what it would have been without that program. You can see that these tax relief programs are very important for the residents of our island. With that, I am going to hand it back to Ken to talk about our gaping.

Mr. Shimonishi: On Slide 8, I think part of the challenge when you think about our budget and the revenues over the past couple of years is, how do we try to estimate the impacts of COVID-19 and now that we appear to be coming back to hopefully near normal or somewhat normal conditions and try to budget for that. TAT, the chart that I am showing on page 8 is what is the tax base, or the total revenue being generated, not the 3%, but the 3% would be based off of this number. As you look at this linear chart, it looks all over the place, but it is surprisingly consistent when you look at it year-over-year. You can see how we fell off when the pandemic hit and restrictions were placed, as far as visitors and so on, that drop off in April of 2020. It is based off of a calendar year because that is how the State reports it, then how we recover beginning June 2021 through December. Page 8 shows that from January 2018 through December 2021, if you look at Slide 9, this layers the same data except year-over-year. With the orange, you see Calendar Year (CY) 2018 what the revenues were coming in at the tax base, so to speak. The green line with the revenues coming in month-over-month and it is very similar when you look at the pattern here, in terms of our seasonality of visitors. The green line CY 21, you can see how it basically fell off and the blue line CY 2021, how it picked up and over the last six (6) months have done better than the prior two (2) years to COVID-19. The red dashed line with blue dot, that is our budget basis. If you look at that compared to the prior years, we are not budgeting excessively higher or at the highest levels that we were seeing most recent, but somewhat in between those lines and try to keep an even keel, so to speak. If you look at the table on the top right totals, again, in CY 2018, \$636,000,000 in TAT tax based and our budget this year is based on \$633,300,000. Again, just to point out the reasonableness, I feel is presented in our budget.

On Slide 10, are fuel tax collections. This is our actual collections. You can see the drop off in May 2020, typically a one-month lag. The same type of analysis on page 11. Again, this is a year-over-year type of look and what did we base the budget on the red dash line with the blue dots keeping relatively in line with what we did over the prior years before COVID-19, so a budget of \$5,400,000 in fuel tax.

On Slide 12, the G.E.T. surcharge. This is what we have been doing in County collections. It started in January 2019, but there were not many collections, because there was a one-year lag of when they pay it, but our collections started to show in February 2019, so you can see how it drops off in May and how we have picked up in July through December of the last year.

Slide 13 presents the same type of year-over-year analysis. In this case, the yellow dashed line will be the basis for our budget of \$26,150,000 in this year's proposal, so not quite going over what we did the last six (6) months adjusting for the front end of where we saw the dip in last year, but try to keep within reason on our projections. That is the main budget

revenue items we have in the budget and if you would like to go over the detailed worksheets, I will follow along with you, Chair.

Council Chair Kaneshiro: I do not think it is necessary to go over the worksheets. If there are Councilmembers that want to or have questions, we have a lot more detailed worksheet on the revenues, but we have heard three (3) or four (4) times why there were increases. The information that we have had so far are good. We have gone line-by-line on this one, I do not think it is necessary without any changes to any fees, so Ken, if there are any questions that you need to refer to the more broken-down worksheet, then we will do that, but we will take general questions right now on the presentation. Councilmember Evslin, then Councilmember Cowden.

Councilmember Evslin: Thank you, Chair. Ken and Reiko, thank you for the presentation. For the Vacation Rentals, the increase in parcel counts looks like one hundred thirty-three (133). This might be a question for Mike, but do you folks have data on what those one hundred thirty-three (133) were previously? Are these Homestead or Residential transitioning out of that to a Vacation Rental?

MIKE HUBBARD, Real Property Tax Manager (*via remote technology*): Mike Hubbard, Tax Manager. Councilmember Evslin, we have data that we can provide. Out of all tax classes there is about forty-seven (47) different changes that has happened over last year to this year from brand new parcels to parcels moving from Residential to Vacation Rental from Vacation Rental to Residential Investor. If you want a detailed analysis of all forty-seven (47) of those or if you want to just limit it to Vacation Rentals, we can.

Councilmember Evslin: It depends on the workload. My main interest is Vacation Rental and I would not want to have you folks go through a bunch of data analysis for others unnecessarily. But if it was possible to provide that as a follow-up where the changes are coming from and also historical data too, on the trend, if we are seeing one hundred thirty-three every year, or are we seeing a spike now?

Mr. Hubbard: Some of it is a rebound from COVID-19, as I would estimate, but we could look from historical trends as well.

Councilmember Evslin: I guess you could lump that all into one, just your take on where these are coming from and potential cause COVID-19, et cetera, it does not need to be detailed. One other question was on the forecast for the TAT. Just from looking at it, it looks conservative forecasted that much lower than 2021 was. Is that based on tourism projections that are showing less tourism next year, or is it maybe an effort to better under project than to over project and then we are short-funded? I guess that is a question for Ken or Reiko.

Mr. Shimonishi: I think it is leaning more towards conservative look until we get the collections a solid history of what is happening and you can always come

up with reasons why it should be this way or that way, how does the economy affect tourism to Kaua'i and whatnot, but just trying to get a ballpark of where should we be and what is reasonable was the approach that we took to put together the budget.

Councilmember Evslin: Thank you. That is not a slam on the projections, I recognize it is impossible to project. I remember hearing a bunch of economists in May 2020 that it is going to take us six (6) years to recover tourism-wise and it took us two (2) months. I know it is an impossible task here. Thank you, Ken.

Council Chair Kaneshiro: Councilmember Cowden.

Councilmember Cowden: I want to look at the Residential Investor numbers on Slides 3 and 5. When we look at Slide 5, that is where we had this gain of almost \$17,000,000 out of a total of additional eight hundred twenty-two (822) households for a total of one thousand two hundred thirty-nine (1,239) households. \$17,000,000 is a lot of money to come out of few properties. I know some of them are extraordinarily expensive homes and I think that is what we intended to target. In 2021, I believe there was two hundred fifty-six (256) houses in that area that fell under this class. We are actually charging these people than the resorts, because we have almost \$30,000,000 in the Hotel and Resort tax revenue and \$33,500,000 in the Residential Investor. If I am looking correctly on page 5... Director Matsuyama you shook your head, did I get that wrong?

Ms. Matsuyama: I was not following where you are going with that. The Hotel and Resort tax rate is much higher than the Residential Investor rate.

Councilmember Cowden: Correct, but the total tax, we had almost \$8,000,000 out of all the resorts. The vacation rentals was another \$44,400,000, so together those two (2) visitor industries is a lot, but when we look at the resorts, thinking about how many people go through there and then when we have one thousand two hundred thirty-nine (1,239) houses that contributed as much as all, in fact more than the estimated TAT. That is an extraordinary increase. When I brought up yesterday that I am concerned about and why I am going to be looking at it later, I understand that this went into the budget now, but for many people this is just a second home in their family that they are long-term renting. They might have long-term rented for a long time and they do not make a new document every year. They could not hit the requirements. Some of them might not know if they have a loan, because that tax increase is going to go to the bank. I want us to look carefully, because when we are getting as much out of one thousand two hundred (1,200) homes as we are getting out of visitors in the TAT, that means every room we are getting...we added eight hundred twenty-two (822) homes, but we are getting an incredible amount of money out of a small portion of people, and by the way of not necessarily giving them fire flow to their houses. Some of those people have the money to pay, they do not mind paying, they do want service, but there are many other people who do not have the money to pay and we are pushing them out. I want us to be looking carefully, I am trying to call attention. Almost \$17,000,000 out of one thousand two hundred (1,200) houses is extraordinary and when we look at a decrease

from Residential to Residential Investor, we lose seven hundred thirty-six (736) houses out of Residential. Maybe some of those turned into Vacation Rental, they could have changed in a different way, but I see we lost seven hundred thirty-six (736) from that protected class that is Residential and move them into Residential Investor, probably a good number of them, just the main trigger point, was the cost of inflationary rate on the value of their house, then we have this disproportionate burden. I am not trying to change it for this year, but I am highlighting it as strongly as I can that many of those houses are going to be forced into sale, and when they have this kind of increase on the house...you have seen some of these things. All of us should have seen it. Where people are getting \$27,000 increases, \$14,500, it is completely unexpected, and they are not abusing the intention of their home. We are forcing those into sales, and do we really want to do that? I think we need to be careful with what is happening there. We need to have some sort of equitable type of charging, so I am just highlighting this problem, and we should all notice that if a thousand houses are paying as much as TAT or more than the hotels and resorts are even when they are charged at a much higher rate. We have something disproportionate going on. Thank you. You might have a comment. I stated that, but I want to hear if you are noticing and "red flagging" that or saying "that is great," because next year when we continue to have more inflation there will probably be more houses that end up into that area, I think we need to raise that number to something like \$3,000,000 not keep it at \$1,300,000, so we keep some of our people in our houses. What is your reaction to that?

Mr. Dahilig: Councilmember Cowden, just as a response, and I know that this also came up in the conversation at Council yesterday concerning some of your perspectives on the tax rate and the structure and who is bearing the burden of the overall revenue picture. As you have mentioned, there is movement in the overall property classifications as you are seeing things shift from Residential to Residential Investor, and as that movement has happened, the policy as I understand it was to bring into line this concern that either homes are being used as second homes or they were staying vacant. I would like to point out that when you look at Honolulu's policy, which is \$1,000,000 as a threshold, so we provide quite a different buffer on that bright line that you would see in the City and County of Honolulu. Just an off the back of the envelope kind of analysis, when you look at the affordable housing threshold numbers for a 3-bedroom house to qualify for a Homestead rate for a rental home, that debt service, if you were to use all of the rental income at that threshold for affordability, it would only hit a home value of about \$450,000. This idea that bringing down the level would affect our affordable housing-type of stock, there is quite a big difference with what rents would be able to carry as debt service for a mortgage of about \$450,000 versus what we are seeing at \$1,300,000 as the bright line threshold for residential units for either be in Residential or Residential Investor. We look at the policy of second homes and are not "Homesteading" as something that needs to be delineated. This is just the net effect of that policy. There can be reasonable disagreement as to whether or not this is the intended picture. We will continue to monitor and look at how the revenue contributors to the overall revenue picture look like. If it is something that requires adjustment based off of as you mentioned, inequitable distribution of the tax burden, those are conversations we

certainly can have, because the Tax Code can change. This effect that you are characterizing is a net effect of a change that is very recent and we will continue to monitor it.

Councilmember Cowden: Okay. I just want to follow up that these are not all empty second homes. That is the thing. They are not all empty second homes. A number of these are rentals and they are just regular people renting to someone for many years. They do not know how and they were not aware to put the paperwork in. We are catching more fish in the net than were intended. If I use that metaphor, the eye of the net is too small. We are catching the *manini* when we are trying to get the big fish. We are moving out people who are basically residents or people who are renters. We need to doctor up that element. We need to open that eye on the net, so that we do not continue to lose affordable housing. The threshold that is affordable housing...if you live in these high-rent areas, you cannot even pay your normal tax and insurance for the rent that is an affordable rental. If you have an affordable rental, you are operating at a loss even if you own your house outright. We have such significant differences. Just as we look at these elements like the graphs, thank you so much...the Vacation Rental information with our G.E.T. on page 8, the normal trend with these spikes and dips, that is what our normal trend is. When we have things like parking permits, it is only going to make money on those high points and it will lose money on those low points. We have to look more carefully. Please expect and I hope I get some support from my colleagues, to look at these definitions. When we talk about keeping local people on the island and I care about all people that live here. These are cousins and grandkids that are in some of these houses.

Committee Chair Kaneshiro: Councilmember Cowden, do you have a question?

Councilmember Cowden: Yes, I do have a question. I will say it again and the Managing Director answered it to some degree. I am really asking as we look at this budget, do we flag an area where it is a big wind fall for money, but are we flagging that as an area that is disproportionate? You said that to some degree, but you gave the \$1,000,000 price on O'ahu. I do not care what it is on O'ahu. What I care about is our people here. If we are taking people out of their homes, do we have any intention to make that correction? That is my question. Do you support a correction that would keep people in long-term rentals, even if they are paying \$2,500 a month?

Mr. Dahilig: That certainly is a good question, Councilmember. Like anything with policy, it always warrants revisiting and also warrants monitoring as it gets implemented. Nothing is ever perfect and when we bring proposals or when proposals are brought from the Council for implementation, we can project, analyze, and anticipate, but until there are real market conditions or real implementation conditions, do we actually see what the net effect of these things are? As we have taken it, the shift in the definition was not necessarily a means to target revenue generation rather than look at equitable distribution of what we believe should be the burden to be borne by those who are "Homesteading" and full-time residents of this County, versus those that are looking at trying to have properties that will appreciate based off of our current market conditions. While

there may be individuals or certain households that are renting, we look at the overall picture in terms of long-term affordable tenant-occupied rental program as kind of the basis for how we anticipate that bright line threshold of what is keeping people in affordable housing units versus what is not an affordable rental. There are very many different definition differences of opinion in what the definition of affordable is, but ours right now is established by ordinance related to the overall tax program for the County. That is what we look at as affordable. If you look at something that you mentioned that is \$2,500, what is considered affordable within the County is something that is a 4-bedroom house with no utilities. Whether or not that type of revenue is meant to sustain the debt service cost of a mortgage for someone who is trying to take a home that is over \$1,300,000 and pay down the debt for that, that would not necessarily pencil out. That is why we do not look at the Affordable Housing Program as something that would conflict with a \$1,300,000 Residential Investor home. Anybody that is in a \$1,300,000 home who wants to rent to local folks are more than welcome to bring their rents within the thresholds established by the Council for the Long-Term Affordable Rental Program or tenant-occupied rental program. They can apply and they can adjust their rates to bring it down to that Homestead tax class. Ultimately, that is a policy call that can be adjusted. None of these things are set in stone or sacrosanct, but they can be changed year-by-year. As I mentioned in my previous response to your question, Councilmember, we will continue to monitor. This is really a new change that we are continuing to see how it impacts both the numbers, counts, and revenues. If adjustments that need to be warranted to recalibrate what was anticipated to be an equitable redistribution of the tax burden, we can certainly have those conversations and those are welcome.

Councilmember Cowden: Okay, thank you so much. I thank you that you helped to clarify for my colleagues that this is statute and ordinance information. People who own these houses debt-free, outright, and with no mortgage, the insurance and the taxes are beyond that amount that is set for affordable housing. It is not possible in expensive communities to have affordable rentals, based on our statutes.

Committee Chair Kaneshiro: I have a question. I heard a lot of information. I heard a lot about homeowners losing their homes. Reiko, can you briefly go over again...my understanding is that anyone in the Residential or Residential Investor tax class are not living in their home. That is not their primary home. They might be renting it to someone, but it is their second home. They are living somewhere else, so these are not people who are losing their home. They are losing their second home. Once you get to a second home, it is a business decision whether they want to keep it as a rental, keep it empty, et cetera. Based on their decision, they could do a lot of things. They could long-term rent it at a lower rate to locals and they will get the Homestead rate, that will save them on taxes. They can long-term rent at whatever rate they want and they can get the Residential tax rate. If they do not do that and they do not want to long-term rent or they want to short-term rent, then they get taxed at the Residential Investor rate. They are not living in the house. If they were living in the house, they would get the Homestead tax rate. Reiko, can you clarify that information? I heard a lot about people losing their homes.

Councilmember Cowden: The tenant.

Committee Chair Kaneshiro: It is not the home that they are in.

Councilmember Cowden: The tenants are losing their homes. The people who are living in it. The cousins that live as the tenant in the home are losing their homes.

Committee Chair Kaneshiro: I am asking Reiko for the definition.

Councilmember Cowden: You are morphing what I am saying.

Councilmember DeCosta: I do not think he is morphing what you are saying. I have to jump in here. It seems like you have someone or some personal friends who are losing this. It seems like that.

Councilmember Cowden: Plenty.

Committee Chair Kaneshiro: Again, let me direct the question to Reiko or Mike if you want to again clarify. I do not want to have misinformation out there. If you are living in your house you get certain tax rates. You are the protected class if you are living in your house fulltime. If you are not living in your house full-time, it is a second home and you are renting it, you are not in that protected class, but there are options that you can take to reduce your tax burden. That is just one part of the business decisions that you have to make when you have a second home.

Ms. Matsuyama: Just to clarify, the definition of the Residential Investor tax class is a property that is, again, a second or third home, or more, of someone who does not live on the property and the property sits vacant, so it does not have a long-term lessee in there. As Council Chair stated, yes, you can rent it affordably and get it in the Homestead tax class. You could rent it at market rates or whatever you want and you could remain in the \$6.05 Residential tax rate. We did a significant amount of outreach to taxpayers that maybe fell from \$1,000,000 and up, that did not have a Home Exemption to let them know that if their property is valued at \$1,300,000, they needed to come in and file a long-term lease agreement with us at Real Property Assessment. We did take in a lot of long-term leases and those homes remained at the \$6.05 Residential tax rate. Councilmember, when you say that the tenants are needing to move out, they must have missed the window or they must have not filed with the Real Property Assessment Office, but I assure you that we did a lot of outreach. We encouraged everyone to come in and file their leases. As Managing Director Dahilig said, this was not a revenue-generating intent when we did that. We did not have the intent to generate revenue. More so, we wanted to try and create more housing so that these vacant homes would make a business decision as Council Chair alluded to, to instead of leaving them vacant, to contribute to the housing inventory and rent these homes. Since that is not what we have seen, maybe we do monitor

more. As long as they are filing their lease agreements by September 30th of each year, then there should not be a problem.

Councilmember Cowden: I just want to say one thing. Can I?

Committee Chair Kaneshiro: No. I have Council Vice Chair Chock with a follow-up question, Councilmember DeCosta with a question, and Councilmember Evslin with a question. Council Vice Chair Chock.

Councilmember Chock: Just to follow up on your response, Reiko. You said that we received a lot of...can you be more specific...how many more did we receive because of this change?

Ms. Matsuyama: Mike, do you know? I would have to have the Real Property Assessment Office do some homework.

Councilmember Chock: Okay, thank you.

Mr. Hubbard: Councilmember Chock, I can take that question down and provide you with an answer.

Councilmember Chock: Thank you.

Committee Chair Kaneshiro: Councilmember DeCosta.

Councilmember DeCosta: Thank you, Reiko, for all that you do. I am in the Residential Investor tax class. I have a second and third home. I have long-term leases with the County. I could make a lot more money if I was doing vacation rentals or renting it at the market rate. I do not. If you have a second or third home, you must be doing pretty good in life. Pay your taxes. The thing that I am going to ask Reiko is...I think we have a misconception here about "tenants" being kicked out of their houses and "tenants" needing to file paperwork. It is not the tenant who files the paperwork, it is the owner of the home who has to file the paperwork. If they do not file the paperwork and their taxes go up, then the homeowner will either have to put their tenant out, or file the late paperwork with Reiko folks or make sure that paperwork is in on-time, so they can have that long-term County affordable lease. It is pretty cut and dried. I do it every year. I think it is every two (2) or three (3) years now. Is that right, Reiko?

Ms. Matsuyama: Yes, for the Long-Term Affordable Rental Program, if you have a three-year lease, you can do it every three (3) years. For this program though, it would have to be every year. You have to come in and file a market value long-term lease. And yes, it is the owner that is responsible.

Committee Chair Kaneshiro: Councilmember Evslin.

Councilmember Evslin: Could I make a comment? I can make it into a question. Mike, Councilmember Cowden said that a homeowner at the Long-Term Affordable Rental rate would not be able to afford to pay their taxes from the rent from the unit. For a home that is at \$1,300,000...

Councilmember Cowden: And insurance.

Councilmember Evslin: ...and insurance. I do not know what the insurance is going to be. For a home that is assessed at \$1,300,000, say a 5-bedroom home with a Long-Term Affordable Rental rate, what would be their property tax burden and at that 5-bedroom rate, how much would they be bringing in?

Committee Chair Kaneshiro: This may be a question we might have to follow up on. I see Mike starting to calculate now, but I would rather you take your time to run a few scenarios. You can get back to us in a written E-mail form.

Councilmember Evslin: You can correct me in the follow up question. It is going to be around \$4,000 in taxes and \$28,000 in rent. They are not even close. You can certainly pay your taxes based on the rent. It is a mischaracterization to say that you cannot. Again, you do not have to do the Affordable Rental Program. As they have said so many times, you can turn in a lease agreement at market rates and I think it is on all of us. We passed this Bill unanimously. It does not just fall on the Department of Finance here. It is on all of us to help inform people that they can turn in a lease agreement to stay at the Residential rate. Instead of trying to jump in circles to possibly rework this ordinance, it is on us to help people to turn in that lease agreement and help them save money to let Real Property Tax know that the home is occupied. Lastly, as far as saying that it is pushing people out of their homes, there is clear evidence from around the country and in foreign countries, they can see tax surcharges work to increase rental stock. When you have a negative incentive to not leave the house unoccupied, it encourages people to put someone in the house. I am not sure how much data we have here, but they work. This is acting in the same manner. Sorry, that was not a question.

Councilmember Cowden: I have a question.

Committee Chair Kaneshiro: I have Councilmember Kualii, followed by Councilmember Cowden, then Council Vice Chair Chock.

Councilmember Kualii: I have a simple question that has to do with the numbers. You have given us this chart with the numbers, so the Residential class went down 736 and the Residential Investor went up 822. We are looking at the numbers and making an assumption that was the only thing that happened. Other things could have happened as well, right? For starters, how many of those actually went that way? Since then, Reiko, you told us about all of our outreach, so on the flip side, how many did not go because your

outreach reached them and they did the necessary paperwork and it was okay? These other people did not do the necessary paperwork, missed it for whatever reason, and since that time, I know how it works because I have helped my parents over the years with their exemptions, and you have to get your paperwork in because they are projection out a year and a half later. There are deadlines so that you can do your job. Of the people who then missed it and maybe are in that boat, probably since then some of them have learned of it and have come to you and now have the paperwork and will probably be submitting it by the next deadline of September 20th. I think probably our system is working. There is no reason to fix what is not broken.

Committee Chair Kaneshiro: Councilmember Cowden.

Councilmember Cowden: These questions are intended to try to help on how we can educate people. How many people who came in did not file and did not have a lease on people because they are family members or employees maybe lived in that house maybe nine (9), ten (10), or twenty (20) years? Did you have many people who came in that had simply never filed a lease agreement because it was essentially a month-to-month agreement for many years? Is there any way that anyone can prove that someone lived in that house for ten (10) years that can be corrected at the Board of Review?

Mr. Hubbard: Yes, if someone came in and did not have a written lease, we would ask them to please have an agreement written up. It can be a very simple agreement and we would process that and enter it into our system.

Councilmember Cowden: If they had, let us just say, for example, a \$14,500 tax increase that they needed to do, but they can show that, do they still have to pay that \$14,500 or pay penalties in interest until the Board of Review determines that it is resolved?

Mr. Hubbard: Thank you for that question, Councilmember Cowden. For the Board of Review question, yes, we do have several Residential Investor appeals that came in this year that is on Slide 4, Residential Investor appeals for this year were fifty-two (52), and in Fiscal Year 2022 there were twenty (20) appeals—a lot of those had to do with the tax class, meaning they found out about the change in tax classification when they read their assessment notice on December 1st. Many of those have come in and many of them have provided leases to show us that they had a long-term tenant in the house at the time of our data value, which is October 1st. We have since made stipulations to the Board of Review and we will be continuing to be doing that this year. The Board of Review has not rejected any of those proposed stipulations and we expect to be able to resolve all of those as long as the taxpayer can provide the necessary documentation in the form of a lease agreement.

Councilmember Cowden: Thank you. Help me with the word "stipulation."
What does stipulation mean?

Mr. Hubbard: Stipulation is a compromise between the County of Kaua'i Real Property Assessment Office and the taxpayer. That means we are agreeing that they should not be Residential Investor and they should be Residential.

Councilmember Cowden: So they would not have to pay that \$14,000 this year. They would maybe after the Board of Review made the determination rather than ahead of it.

Mr. Hubbard: That is a good question, because we are doing assessed values far ahead of the tax bill and that is what you folks are here to determine throughout the budget process is to agree or approve to the Mayor's projected tax rates of no increase. The first bill will be due August 20th. If we can get everything resolved for these fifty-two (52) residential investors in front of the Board of Review prior to about July 20th and if everything is resolved, they will not have a large tax bill based off of Residential Investor and we will be able to essentially bill them correctly at Residential. If for some reason we cannot have the hearing, yes, they will receive a bill for the Residential Investor rate and then they will receive a correction once the stipulation has been processed.

Councilmember Cowden: I could say so much more, but thank you.

Council Chair Kaneshiro: Councilmember Carvalho.

Councilmember Carvalho: After hearing all the discussion, I just wanted to explain my point of view overall. I totally understand what is being discussed, but on a personal note, even for my family, we have rentals and we encourage...there is a process in place and we encourage people to get in there and understand the process and we are hearing you. There is a process in place, you get in there, you can hold on to your rental and make sure that everything is *pono*, if you know what I mean, and at the same time, coming and understanding what it means and having it myself as a family. I think this is a good discussion for our opening for more healthy discussions and I thank Finance for hanging in there and having a process in place that can really help our people to understand the need and to secure their homes overall, for everyone. I just wanted to mention that on my side to add on to what is happening and understand right here and what is before us, and there is a process in place that is critical.

Council Chair Kaneshiro: Are there any further questions on revenue?
Councilmember Cowden.

Councilmember Cowden: On this, do you have an estimate on how many of these homeowners of rental properties are—not picking on seniors, but maybe in their seventies, eighties, or nineties—people who have their strength that help them to have these houses and the time before there were so much online time and ability and strength, maybe they are not operating in their strength of the paperwork. Do you have special assistance for that community and are you seeing many of them, because I know that there are predatory

buyers out there that are ready to snatch up those houses? People struggle—how do you help the people who do not have the technical capacity to easily understand how to jump through these hoops, especially in COVID-19?

Council Chair Kaneshiro: Are you talking about someone who lives in their home full-time?

Councilmember Cowden: No, I am talking about the owner of the home of the rental, because these are not...I am not trying to protect...I know I am being told that I am trying to protect wealthy people from somewhere else, but who I am trying to protect is less sophisticated homeowners that have different family members or employees in their houses and I wonder how the Department of Finance, not that it should be your job, but how do you deal with these people who are the *kupuna* in their family and they do not seem to know how to this? They cannot even read anymore.

Ms. Matsuyama: I would just say, Councilmember, I would encourage everyone to call the Office, because we have excellent staff, essentially many of them act as tax advisors. We are talking about tax relief measures here, but the assessment office is the main generator of revenue, so we have to make sure that we do not lose sight of that. Many of our staff really work as tax consultants, so they are excellent in guiding people, and they will work with someone. For example, if someone brings in a monthly lease and that is unacceptable for our parameters, we will work with them to make sure right. "Here is a template, this is what we need, this is what dates it needs to cover," because I know a lot of people have relatives living in the homes and they have been there for years, and they do not necessarily have documented leases, so we work with them to make sure they get in what they need. That is what I would say on that.

Councilmember Cowden: Thank you. That is the community that has most of my attention.

Council Chair Kaneshiro: Are there any further questions on revenue? If not, we need to take a caption break. If there are no further questions on revenue, then I will tell Reiko that they are good, and we are going to move on to Human Resources when we come back from the caption break. Are there any further questions from the Members? We will take a ten-minute caption break.

There being no objections, the meeting recessed at 11:04 a.m.

The meeting reconvened at 11:18 a.m., and proceeded as follows:

Department of Human Resources and Human Resources Reports

Committee Chair Kaneshiro: Welcome back. Lastly, we have the Department of Human Resources (HR) and any questions regarding their Vacancy Reports. I would like

to call upon the Director of Human Resources, Annette L. Anderson and her team to take us through the Department of Human Resources budget. Councilmembers, we are on Master Page 76 for HR.

ANNETTE L. ANDERSON, Director of Human Resources (*via remote technology*): Good morning, Council Chair, Council Vice Chair, and Councilmembers. It is a pleasure to be here this morning. I want to make this as simple as I can. In a nutshell, the HR budget, what we are seeking is an increase to our account under repair and maintenance (R&M) for computers. We want to increase that by \$353,000. "Why," do you ask? That would represent the annual subscription and maintenance fee for our new Human Resources Management System (HRMS). Just like when we have computer software like Microsoft Office 365, the software needs to be maintained on an annual basis. It must be updated in order for the system to function properly. That is what we are seeking. That is really solely all we are seeking in our operational budget. When you go through the worksheet, there are a lot of increases here, decreases, and flatlines; we have all of that covered. We just basically decided to go through our budget and make it a little more accurate picture of what we truly spend. That is why you will have increases or decreases throughout the line items on the worksheets. How did we do that? We were able to dollar-fund one of our other accounts, which is the unemployment insurance account. It used to be \$50,000. We dollar-funded it. We took the remaining \$49,999 and we distributed it throughout the rest of the operational items. Again, I know it could be a little confusing when you see the ups and downs throughout the worksheet, but I tried to explain it in my synopsis on page 2. The attention I think that you should focus on is page 79 under the R&M Computers, you will see HRMS Annual Subscription and Maintenance. That is \$353,000. Thank you. I will try to answer any questions that Councilmembers may have. I also have Janine and Jill on the meeting, both of whom are heavily involved in the HRMS project. I should also say that I invited Del Sherman, our IT Manager to participate, but he had an unexpected family matter and I believe he is on an airplane right now. I think I can address any questions that would be more IT-related. If not, we certainly will get back to you once Del returns.

Committee Chair Kaneshiro: For me, I will ask a question regarding the HRMS line item. Can you explain what the HRMS is, where we are on implementing it, the benefits of having that system, and how it is going to help the County?

Ms. Anderson: Yes. As we may have presented to the Council before the system that we have procured is called "Workday." It is a well-known system and in fact, the County of Maui uses it. I understand that other counties in Hawai'i are also looking at using it. We, unfortunately, have been using an old and outdated system; we are in the paper and pencil era, which is just ridiculous. When you have paper and you then have to enter personnel transactions into a computer system that is not the current system, that just causes error. It causes undue time. This new system will eliminate that and hopefully eliminate the human errors that can happen with paper transactions. It will speed up things tremendously and will allow staff to work on other critical projects rather than spending their time doing these transactions. It will also allow individual employees to have

greater access to their personnel information in this system. They can access it. They can put in their own timesheets. They can make changes to their personal data and information. It is a benefit for every single employee, as well as the people who work in the personnel transactions. It helps to ensure that transfers occur properly and accurately, pay increases are done accurately, et cetera. There is just a tremendous amount of value and that is why obviously we were able to go forward and procure this system. I know that you mentioned implementation. It is a long, drawn-out process before you can go live. I am not the expert on it, but I have the benefit of kind of talking in layman's language rather than the technical IT-world language. Basically, you buy a system and then it needs to look like Kaua'i. Even though we are similar to Maui, we are not identical. What we have been doing over this past year with our vendor is making the necessary adjustments so that it looks like what we want it to be for Kaua'i. That also entails making sure that we have the correct business processes in place to be able to do what we need to do. Then, as this is being built out, they have to go through different stages of testing. We had a first stage of testing. Then they repeated that testing to work out the kinks. They are now in the phase of another testing and they have to build out another system to incorporate what they learned from the tests. Then there will be the final testing that will be coming up in the next couple of months. It is just critical. It will show that either the system is as close to 100% accurate as we can go so that when we do go live, the payroll checks will be accurate. That is our number one concern. We want to make sure we have accuracy in the payroll checks. We really do not have a hard date yet on when we will implement and go live. As I just mentioned, we have to continue the testing process. I should also mention that once we know that we have an accurate system that appears to be working properly, we have to make sure that the employees who will be using this system—that is every employee, supervisor, et cetera—that they are trained and understand how to use it so there is the least impact on making the change. We know change is difficult and there is a learning curve, but we want to make it as easy as possible. We have to factor that into the timeline as well. Hopefully that answered your question.

Committee Chair Kaneshiro: Yes, that answered my question. Are there any other questions from the Members? Councilmember DeCosta.

Councilmember DeCosta: Is this a one-time fee of the \$353,000? Or will we have to pay that every year?

Ms. Anderson: No. The bad news is that it is every year. As I mentioned in my opening remarks, that is to be expected with any kind of software system. It will be an annual fee. The good news is that it has been built into the contract that we have with the vendor so that we know what each year will cost over the next 10 years. I think it goes up some, but at least we have factored into the contract the annual fees over a period of 10 years so we will not be totally surprised. We will know how to budget for that.

Councilmember DeCosta: May I ask a question about the competitiveness of this vendor? Did we try and seek other vendors that might have a more competitive price, or was this just a vendor that had no other competitor that could give us a better rate?

\$300,000+ a year sounds like quite a bit. It kind of sounds better if we had our own IT person running those programs.

Ms. Anderson: The answer is that we went through the formal procurement process. There were a number of companies that bid. We went through the normal procurement process of analyzing the proposals, asking questions, and making a determination of which vendor was not only the best in price, but best in terms of what we needed. We are confident that we selected the best vendor out there and certainly price is a factor. Again, I am not the IT expert, but I think that you could not do in-house with individual IT people what we are buying with this system. It is kind of like Microsoft 365 and all the things that that provides to you. You could not have individual people do that. You have to buy the computer software system itself.

Councilmember DeCosta: I just have a hard time grasping that the initial cost would be the same as the yearly maintenance costs. Usually when you buy something, the initial cost is expensive, but then the maintenance cost per year is not quite as expensive. It is kind of like a vehicle. You buy the vehicle and then you pay for an insurance premium that is not as expensive as the vehicle. I was just trying to grasp why the price is the same for the next 10 years.

Ms. Anderson: This is the maintenance fee and subscription fee. The cost to buy this product was a lot. I think I will have to rely on Jill if she knows the exact amount. We are talking millions. It was a lot to buy it and now we are maintaining and having the annual fee. Here is Jill.

JILL NIITANI, Human Resources Manager III (*via remote technology*): Good morning. Just to clarify, we purchased Workday and we went through the procurement process as Annette mentioned. The initial price, or what we have already paid the vendor, was in the hundreds of thousands of dollars. The maintenance fees and the subscription fees are to be able to help us maintain the system and to be able to provide us enhancements as we go along. We want this system to be able to carry us forward for many more years to come. We want to be able to move with the times so that we do not have to necessarily do this process again to find another vendor that can provide us bigger and better services. We want to be able to move with the times which is why we selected this vendor. They seemed to be able to want to enhance the system and get better and better. That is what attracted us to them in the first place. Obviously, we like that the County of Maui already went through that curve with procurement and selected them. We are relying a lot on Maui. We are talking with them a lot and getting their support in getting us through this implementation. As Annette mentioned, with the initial purchase, we are going through the implementation process. We have an implementor assisting us with that. They will drop off once we go live. We may establish some relationship with them, but not to the level we are right now. We will just go with Workday and they again, will be able to support us as we move through the years. Definitely, there are a lot of parts within their system which require a lot of maintenance and support. Throughout the year there will be tax updates, enhancements

with different modules within their system, et cetera. They are actively working on that and what we are paying for. Unfortunately, Del is not on the line, but he would be able to explain our current system and the support that we require from them just to maintain our existing system that does not necessarily provide us the support that we need now moving into trying to become more supportive the departments in reports. This will provide us different functionality and different benefits from the system that we do not currently have. That maintenance fee will unfortunately continue as we expect the Workday software to grow and enhance with us. I am not sure if that supports that, but we do, as Annette said, have to pay for maintenance and support just like how we currently are with our current personnel and payroll system that we have now.

Committee Chair Kaneshiro: Council Vice Chair Chock.

Councilmember Chock: Thank you, Annette and Jill. I appreciate this. We have been looking at how to build capacity for many years. Seeing this move forward is really good and I appreciate the work that you have done on it. I wanted to ask a question about your training budget. I have been supportive and active in your development of that over the years. I see an increase in that line item. I just wanted to ask if you could provide a little more detail in terms of what we have invested in and where we are going with it in terms of service or support of our department heads and supervisory training.

Ms. Anderson: I will defer to Jill. She leads our training section. I just want to highlight that, yes, our line item budget for training has gone up, but we have got it covered. We are not asking for additional moneys. As I mentioned earlier, we just moved the money around. We are very pleased that we are able to focus more on training, now that we are kind of getting back to normal. Obviously during the first two years of COVID-19 that was not happening. I will let Jill explain our vision for the next year on how we think we are going to enhance our training.

Ms. Niitani: Like Annette mentioned, with COVID-19 there was limited opportunity to get together to meet. We anticipate that, actually in a day, to provide us with lesser restrictions. We will be able to meet, gather, have in-person trainings, which do cost a lot more than virtual trainings. We want to try to get back to normal with regards to providing supervisory and management training. I am not sure if you have seen, but we hired a Safety Officer for the County and that falls within our Department. We would like to be able to get better and have more opportunities for safety-related trainings for employees. We are actively working the departments and our new Safety Officer started about a month ago. We envision pushing out some of those moneys towards that. Again, some of the departments have been asking for that, but now we can support them a little bit more and to be able to get that kind of training out there. We want to get back to providing supervisory trainings whether it be some things that we want to maintain ourselves, but we also want to bring in real instructors. I know a lot of people are familiar with Glenn Furuya. We have had Alt Kagesa come down. They are really experts in their fields and in leadership. We want to be able to get more of that out there for our managers and supervisors. That is

what is coming up in this next year. Definitely, we are actively working with our HR Specialists as well as our Safety Officer to be able to get more regular trainings out there for our employees.

Councilmember Chock: Thank you.

Committee Chair Kaneshiro: Councilmember Cowden.

Councilmember Cowden: I have a follow-up question to Councilmember DeCosta's question. With our subscription, does that include software updates? There will probably be more than annual updates, correct?

Ms. Anderson: Correct.

Councilmember Cowden: That is a big part of what we are purchasing with that. It is not a one-time...software is very different than hardware, even though with hardware, we need that updated too. How many staff positions do we have? I know that it fluctuates by how many people are hired. I know we are a little light. How many people do we have employed by the County right now? Is it around 1,200?

Ms. Anderson: I think it is 1,325 as of March 15.

Councilmember Cowden: Okay. As someone who has bought software programs for my business a lot, and have worked in the industry, I look at this as less than \$270 per employee to be managing their payroll and all of that, per year. As a percentage of what it costs, I can justify that pretty easily in my mind. Will this help us in any way...this does not help us hire new people, right? This is a new question. Our percentage of openings, is it roughly 10%? I think we talked about this.

Ms. Anderson: On the Vacancy Report, it is 13%, but I think as you and I have discussed, there are various reasons for the vacancies. It is not all in the hopper or in the recruitment pool. They may be undergoing restructuring, reorganization, reallocating of departments, and they are determining how best to use that vacant position so it is not actively being recruited right this moment. There are other reasons for the vacancies, including when promotions happen. That causes vacancies. As I mentioned to you, I am not concerned with the percentage that we have. I think it is well within normal limits.

Councilmember Cowden: Okay, thank you so much.

Committee Chair Kaneshiro: Councilmember Carvalho, then Councilmember Evslin.

Councilmember Carvalho: Thank you for the presentation. I just had one comment first. I remember not too long ago when everything was paper. We had paper timesheets and all of that and we transitioned into technology with computers. That is a great thing. The other part that I heard, which is good, is partnering or learning with the team from the County of Maui. There is a connection and everything learning together. That is a positive thing that I see. We are working together and understanding each other's challenges and successes. Are you working together well in trying to rebuff some of the things that you can continue to look at overall to help the system?

Ms. Anderson: Most definitely. We know the people and the HR Director on Maui really well. He actually has an IT background. He was helpful in the very beginning stages to help us to understand what we really would need. Janine and I can text him anytime to ask questions. We also developed a relationship with the County of Maui, between our payroll sections. Payroll on Maui is outside of HR, it falls under the Department of Finance. We have been able to connect our HR person with their head payroll person and they are able to really get into the weeds of issues regarding payroll. There are all these different kinds of differentials or payments that have to happen. It is very complicated as you can imagine. It is very helpful that the payroll people are able to compare notes and find out how you do this or that, or what is the challenge. Maui is also continuing to work with the vendor Workday. They are actually getting updates for their needs from Workday. They then share that with us. We do the same for them. We have found things that we do or will be doing, and Maui wants to possibly do the same. It is great.

Councilmember Carvalho: Okay, thank you.

Committee Chair Kaneshiro: Councilmember Evslin.

Councilmember Evslin: Thank you for the presentation. For the HRMS, do you expect with the efficiencies gained from that, do you expect any savings from salaries down the line or any other potential fiscal savings because of the program?

Ms. Anderson: We are looking at that. Certainly, if there are vacant positions, we would take a real close look. I do not anticipate having to say we do not need certain employees anymore. We are not doing that. What we would be doing is if employee A, B, and C are now doing a lot of these paper transactional work or spending a whole lot of time on payroll things, their duties may shift to more important projects to improve the overall system. We are going to look at it, especially if the vacancies come about, but we do not anticipate any reduction. I think that is a fear that often happens when technology comes onboard. Does that mean we are not going to need employees to do the work?

Mr. Dahilig: Councilmember Evslin, just as an added benefit, from a management standpoint, a lot of the tools that are going to be coming out of Workday will allow us to better track metrics with performance, as well as scheduling. While we

cannot necessarily give specific numbers as to the cost savings or realization would be, it will help us take a look at over-accruals of overtime types of situations, better management of resource staff time, or a lot of the other things that some of our other departments have done literally with a pencil and then put into Excel. That data-mining element really helps us give us that real-time feedback on performance and whether we need to make adjustments as to human resource time being better utilized or better managed.

Councilmember Evslin: Okay, thank you.

Committee Chair Kaneshiro: Councilmember DeCosta.

Councilmember DeCosta: I have a question for Annette. I was just looking at our pay scale here. It jumped out to me that one of the EM-5 positions, we have a person there earning quite a bit of money over the other EM-5 person. Is that due to years of service or do we have a wide range in that EM-5 schedule of payroll?

Ms. Anderson: It is because of years of service. They have a lot of years of service.

Councilmember DeCosta: Okay. I just noticed that person makes quite a bit of money. Thank you.

Committee Chair Kaneshiro: Are there any further questions on the HR budget? Councilmember Kualii.

Councilmember Kualii: My question is on the two (2) vacant positions. Position Number 1877, Payroll Technician, vacant, and it says, "selection made" with the earliest hire date of 04-01-2022. What is the likely hire date or the latest hire date?

Ms. Anderson: Actually, I am pleased to announce that we have selected two (2) people for the vacancies, and they have accepted the offer of employment. They will both begin on April 16th.

Councilmember Kualii: Thank you. My other question is about vacant positions in general and the entire report. When I go through each department—and maybe I will follow-up with them—HR obviously does the recruitments for all the departments, so we received this report from you. The regular vacancy report shows the basic information, and the supplemental report gives more details on the recruitment status. On several positions across the County, in the recruitment status report under the comments column, the comment is "no request to recruit." When it says that, it sounds like the position is just going to sit vacant. I wanted to have a sense from HR about what is going to happen with those positions. If they request to recruit from tomorrow, what is the shortest, average, and longest timeframe to go through the recruitment process and get those positions filled?

Ms. Anderson: I am going to answer a portion of your questions and then I will turn it over to Janine, who heads the recruitment division and as you know, she is also the author of the reports that you can see the recruitment status. As to your question about how quick a department could recruit and get someone after we go through the posting, interview process, offering, and having the person accept the offer—and we hire on the 1st and the 16th—the quickest we could do it is one (1) month. The average and the longest, and the explanation on the recruitment status of “no request to recruit,” I will turn it over to Janine for that. Thank you.

Councilmember Kuali'i: Just for clarification on what you just said...

JANINE M.Z. RAPOZO, Human Resources Manager III: Hi, good morning.

Councilmember Kuali'i: Wait, Janine. Did you say then, on these that say “no request to recruit” if you got the request to recruit, from that day forward, it would take a month to go through the recruitment process, which is the fastest?

Ms. Anderson: Yes.

Councilmember Kuali'i: Okay. Go ahead, Janine.

Committee Chair Kaneshiro: What were your questions Councilmember Kuali'i?

Councilmember Kuali'i: She said Janine was going to explain the other part about what it the shortest, average, and longest, as well how I can make use of the comment “no request to recruit.”

Ms. Rapozo: Good morning, Janine Rapozo, HR Manager. The Vacancy Report is a snapshot in time as far as where our vacancies are at. Yes, you could have a “no request to recruit” and tomorrow, you might get a request. As Annette said, it could be as quickly as a month. It all depends on a lot of factors as far as whether we have qualified applicants for the job and how quickly the department interviews for the position. The quickest would be a month, because we put out the civil services positions for a 10-day recruitment posting. That is the first thing that would happen—it must go out for ten (10) days—then our recruitment staff looks over all the applications, it could be no one applies and so we re-recruit. Some of them are on continuous recruitment because they are hard to fill. We did look at all of the positions as part of the Budget Team, and I believe we short-funded about thirty-two (32) positions because we did look at things like that, such as how quickly would these people be able to fill those positions. We felt that there were some that would not be able to fill in the first quarter of the next fiscal year, and that is why those were short-funded to 9-month funding. There are some others where, for example a firefighter, they will not recruit every time there is an opening. They are going to wait to create a class. Again, a lot of different things and rather than just going ahead and

immediately filling a position, departments sometimes will look at it and not wanting to add to the burden of the budget, they will redescribe a position to something that is more of their current need. Those are some of the factors that go into why something may be sitting; they may be looking at different things, they may have to promote from within first. There is a domino effect that if it is an equipment operator, you are going to have a Tractor/Mower Operator move up to an Equipment Operator, then a Laborer move up to a Tractor Operator, and then we finally fill the bottom position. That all takes the month. It all goes through all of those processes, so those are some of the civil service rules that we have to follow. Unfortunately, it takes us some time, but kudos to the recruitment staff here. My staff has been pushing forward as much as possible in getting those eligible lists to our departments as quickly as they can. It has been a challenge for certain positions as far as getting eligible people to qualify. We have seen a little bit more success recently with getting a little bit more applicants for some of our hard-to-fill positions.

Councilmember Kualii: Thank you so much.

Ms. Rapozo: You are welcome.

Committee Chair Kaneshiro: Are there any other questions from the Members either on the budget or the Vacancy Report that we received? If not, we are done. Thank you, everyone, for a very productive day today. Thank you to HR, Office of the Mayor, and Finance for all their presentations. At this time, I would like to recess the Departmental Budget Reviews. We will reconvene at 9:00 a.m. on Monday, March 28th, where we will hear from the Department of Public Works on their Operating and CIP budgets.

There being no objections, the Committee recessed at 12:30 p.m.